

# **INTRODUCTORY SECTION**

**City of Manchester  
Department of Finance**

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October 1, 2002

To the Honorable Board of Mayor and Aldermen and  
Citizens of the City of Manchester, New Hampshire

The Comprehensive Annual Financial Report (the "CAFR") for the City of Manchester (the "City") for the fiscal year ended June 30, 2002 is hereby submitted. The City's Finance Department prepared this CAFR. The purpose of this report is to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of the operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The CAFR is presented in three sections: the introductory section, the financial section, and the statistical section. The introductory section, which is unaudited, includes this letter of transmittal, the City's organizational chart, and a listing of City officials. The financial section includes the independent auditor's report; management's discussion and analysis; the basic financial statements; notes to financial statements; and the combining and individual financial statements and schedules. The statistical section, which is unaudited, includes pertinent financial and general information indicating trends for comparative basis fiscal years.

The City's basic financial statements include all entities for which the City is financially accountable, and other organizations of the City for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board ("GASB") Statement 14 has set forth criteria to be considered in determining financial accountability. This criteria includes whether the City, as the primary government, has appointed a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

The City has three component units - Manchester School District, Manchester Development Corporation, and the Manchester Transit Authority. Using the criteria of

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GASB Statement 14, management determined that the Manchester Development Corporation, the Manchester School District, and the Manchester Transit Authority should be discretely presented.

The City is required to have an annual audit performed in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States of America and in conformity with the provisions of the Single Audit Act Amendments of 1996 and the United States Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." The federal single audit for the year ended June 30, 2002, will be issued under separate cover. All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations and auditor's report on compliance and on the internal control over financial reporting based on an audit of the basic financial statements, will be included therein.

**General Description** - The City is located on the Merrimack River in south central New Hampshire, approximately 58 miles north of Boston, Massachusetts. It is bordered by the towns of Hooksett, Bedford, Londonderry, Goffstown, Auburn, Litchfield, and Merrimack. The City has a population of 107,006, according to the 2000 Population Census, and occupies a land area of 33.9 square miles.

First settled in the early eighteenth century by John Goffe, the land, which is now the City, was the disputed territory of Massachusetts and New Hampshire. This land became part of New Hampshire when New Hampshire became a separate province in 1741. In 1751 the area was incorporated as a town and renamed Derryfield. Over the next century the town evolved from a grazing field into a developing manufacturing center with major cotton and wool milling industries. Samuel Blodgett, the visionary of this development, compared the town to the industrial center of Manchester, England; hence, in 1810, the name of the town was officially changed to Manchester. In 1846, Manchester was granted its city charter. Manchester was one of the first planned cities in the country. Its streets are laid out in a grid pattern and major streets run parallel to the Merrimack River. In recent years the City's economy has undergone a transition from one that was manufacturing-based (textile) to one that includes a diverse array of businesses and industries.

**Description of Government** - The City's current charter (the "Charter") was approved by the voters of the City at the November 5, 1996 general election. The Mayor has appointment powers and budget line-item veto authority. The Charter includes an ethics policy, a local initiative option, and calls for the formation of a Charter Review Committee every ten years.

The City is governed by an elected Mayor and a fourteen-member Board of Aldermen representing each of the City's twelve wards and two aldermen elected at-large. The Board of Aldermen approves the City's budget and also nominates and appoints the City's officers. The Finance Committee, consisting of the Board of Mayor and Aldermen ("BMA"), approves labor contracts and also adopts monetary appropriations.

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**Financial Information** - The City's accounting system is organized and operated on a fund basis. A fund is defined as an accounting entity with a self-balancing set of accounts. The types of funds utilized by the City are as follows: general, special revenue, capital projects, enterprise, and trust and agency. The type and number of individual funds established is determined by generally accepted accounting principles ("GAAP") and sound financial administration. The general, special revenue, and capital projects are maintained on a modified accrual basis of accounting, generally with the revenues recorded when measurable and available and the expenditures recorded when the services or goods are received and liabilities are incurred. Accounting records for the City's enterprise, pension, and trust funds are on the accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Internal Controls** - Management of the City is responsible for establishing and maintaining a system of internal controls over financial reporting to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Controls are designed to provide reasonable, but not absolute assurance regarding (1) the safeguarding of assets against loss from unauthorized use; and (2) the reliability and accuracy of financial statements. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived; and that the evaluation of cost and benefits requires estimates and judgment by management. The City believes that its internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As part of the City's single audit, tests were made of the government's internal controls over financial reporting and of its compliance with applicable laws and regulations, including those related to federal and state financial award programs. This testing was not sufficient to support an opinion on the government's internal control system or its compliance with laws and regulation. However, the audit for the year ended June 30, 2002 disclosed no material internal control weaknesses or material violations of laws and regulations.

**Appropriation Process and Budget Control** - The Charter provides for the Mayor, and such other officials as the Mayor shall select, to prepare a budget for consideration by the Board of Aldermen. The Mayor's proposed budget must include certain historic and projected expenditure and revenue information and statements of anticipated tax levy and debt service requirements. The Mayor's proposed budget is referred to a public hearing.

After the public hearing the BMA may adopt the proposed budget with or without amendment. If amendments are made, a second public hearing may be held prior to final adoption. The Mayor may veto the entire budget or line items thereof. In the event of a veto all portions of the budget not vetoed shall be passed. If the BMA fails to adopt appropriation resolutions for the ensuing fiscal year by June 30<sup>th</sup>, the Mayor's budget as originally proposed shall prevail.

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The Charter also provides for supplemental appropriations, reductions of appropriations, and transfers of appropriations under certain limited circumstances.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the BMA. Activities of the general fund are included in the annual appropriated budget. Project-length budgets are prepared for the special revenue and capital projects funds. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the departmental level within each fund. The City also maintains an encumbrance accounting system as one method of maintaining budgetary control. Unencumbered amounts lapse at year-end. Encumbered amounts at year-end are reported as reservations of fund balance.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

**Cash Management Policies and Practices** - Excess cash was invested in U.S. Treasury Bills, certificates of deposit, repurchase agreements, and the State of New Hampshire (the "State") Investment Pool. The maturities of the investments range from thirty days to six months, with the average maturity closer to the thirty-day range. This was certainly not due to a shortage of funds, but to the reality that the market was in an inverted yield curve position. Consequently, funds were invested for shorter durations to take advantage of the rate environment. The average yield on investments was 2.83%, which contributed to the \$1,132,648 that was realized as interest income in the general fund, which was considerably less than the anticipated revenue figure.

The City's Investment Policy conveys the concept that the preservation of capital and the liquidity requirements are the two primary factors considered in the structure of the portfolio. Whether instruments are marketed by banking institutions or pooled investment managers, they are subject to stringent requirements. Accordingly, 65% of the investments held at fiscal year-end were collateralized through Joint Custody Accounts at the Federal Reserve Bank of Boston or through perfected collateral arrangements. This contributed to the classification of a low risk profile, which the City strives to maintain. Most accounts/securities were held and designated specifically in the name of the City, while the guarantor of the pooled investment arrangement is the nation's leading municipal bond insurer and a publicly traded, NYSE-listed company.

**Risk Management** - The City has a program of both self-insurance and policies for worker's compensation, health, and general liability. Under this arrangement a third party administrator manages the claims with the City Risk Manager.

The City has a pro-active Employee Safety Program with a Safety Officer and a Safety Committee meeting on a regular basis.

Liability, property, auto, and professional coverages are maintained with claims coordinated through the Risk Management office.

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**Community Improvement Programs** – As part of the City budget process, the City Finance Officer provides the Mayor and Aldermanic CIP committee with a five year debt affordability forecast as a basis for the Planning Department development of the Mayor's recommended CIP program / budget. The project initiatives are envisioned over the ensuing fiscal period in accordance with the affordability forecast.

<b>GENERAL GOVERNMENT FUNCTIONS</b>
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**General Fund**

The City's position with respect to the School District FY 2000 operating deficit of \$3,182,373 and various administrative issues was upheld and formally incorporated into a court-adopted settlement. The Settlement Agreement (dated October 9, 2001) establishes a procedure for eliminating the School District FY 2000 deficit over the two-year period FY 2003-2004. The Agreement also reaffirms certain fundamental management premises insisted upon by the City including City ownership of school facilities; BMA appropriation authority; and BMA debt issuance and authority. The Agreement also encourages the sharing of administrative resources (legal, human resources, finance) which is consistent with a Charter amendment adopted by the electorate re-establishing the School District as a City department.

During fiscal year 2002, the Manchester School District was able to reduce its outstanding deficit by \$718,531. The FY 2002 fund deficit of \$2,081,077 will be reduced again in FY 2003 by a minimum of \$500,000 and eliminated in FY 2004 by a BMA appropriation in accordance with the aforementioned agreement.

**General Fund Budget** - The FY 2003 Budget was adopted on June 10, 2002. The budget increases School District spending by \$10,089,410 (8.7%) and municipal spending by \$1,163,463 (1.1%). The City's tax rate increased by \$1.86 (7.8%).

**Biennial Budget** - Chapter 54 of the Laws of 1998 (RSA 32:25-26 Biennial Budgets) was adopted by the New Hampshire Legislature in an effort to provide municipalities with more management flexibility. The statute allows for biennial budgets to be adopted for the periods immediately following a municipal election, thus providing that elected officials could only adopt biennial budgets covering their two-year term of service. The City Charter also allows for the adoption of biennial budgets. Therefore, pursuant to this legislation, the City initiated a trial biennial budget exercise as part of the FY 2003 and FY 2004 budget cycle. This allowed the City to directly experience a biennial budget preparation process to determine its practicality and usefulness as a strategic planning tool. An annual plan was adopted for FY 2003 allowing remedial action regarding preparation of a biennial budget to occur throughout FY 2004 in anticipation of a first biennial budget for FY 2005 and FY 2006.

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<b>ECONOMIC DEVELOPMENT/MANAGEMENT INITIATIVES</b>
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As the State's largest city and business center, Manchester boasts a diversified economic base. Both the State and the City are recognized nationally for their livability (#2 Healthiest State – 2001 United Healthcare Group; 2<sup>nd</sup> Safest State 2001 - Morgan Quinto; #2 in Child and Family Well-being - 2002 Kids Count Data Book; #4 State of Caring Index – United Way of America; #2 Highest Standard of Living 2000 Expansion Magazine; #5 Start Quality of Life Rating, measuring communities best suited for business expansion or relocation); #4 Most attentive City for manufacturers (Business Development Outlook, 1999).

Manchester has always been a city where business prospers. Once the site of the world's largest textile mill complex, the City today boasts an economy that is a diverse combination of manufacturing, service and retail firms. The history of Manchester is one of orderly growth, emphasizing the dual values of business prosperity and quality of life.

More than 200 diversified manufacturing firms call Manchester home. Nearly 70% of manufacturing jobs are in durable goods production, especially metal products, electrical products and machinery, and plastics.

Over 80% of the work force in the Manchester Metropolitan Statistical Area ("MSA") is employed in more than 2,000 non-manufacturing firms, and Manchester is the financial and commercial center of northern New England.

The Manchester MSA has over 8,000 commercial establishments, including more than 800 retail stores with annual sales of over \$2.4 billion (2001). Continuing expansion of financial and business services, supported by significant growth in population and personal income during the past decade, has contributed substantially to improvement of the area's economy.

The Manchester Metropolitan Statistical Area labor force numbers 112,490 while the unemployment rate is 4.6% (November 2002).

The City's financial and economic position is further supported by its strong credit rating from Moody's Investor Services (Aa2). The City began preparing for an economic slowdown in FY 1999. Through the use of conservative revenue forecasting and a dedication to disciplined spending, and aided by unusually mild winters, the City has been able to grow and sustain positive undesignated General Fund balances and a \$9,576,915 Revenue Stabilization Fund. During this period the City has also adopted several management initiatives to further strengthen the City's overall financial position. For example, the Board of Mayor and Aldermen have recently adopted the following management initiatives:

1. Special Revenue Reserve Account establishing an account comprised of all non-recurring revenues designed to offset costs associated with capital

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purchases. This initiative prevents the use of so-called “one time revenues” being used to cover operating expenses and thereby reduces the likelihood of “tax-rate shock” in future economic downturns.

2. Risk Retention Reserve Accounts. This initiative requires that any balances at year end in any particular insurance reserve, in excess of actuarially required amounts, first be applied to the City’s other insurance reserves, to insure that all of the City’s self insured funds (Workers Compensation, Casualty and General Liability, Health Claims) are fully reserved before excesses are applied to undesignated fund balance.
3. Tax Rate Stabilization Reserve Account. In addition to the City’s Revenue Stabilization Account (Rainy Day Fund), this initiative introduces a disciplined approach to the application of undesignated fund balances to tax rate reduction. Thereby, reducing the amount of fund balance applied during periods of economic growth to ensure balanced rates in difficult periods.

Needless to say, these three initiatives individually require additional attention to spending patterns in periods of economic growth and force elected officials to examine the long term implications of revenue/spending policies.

The City has moved to strengthen its financial position by making difficult interim management decisions. In FY 2002 the City experienced an unexpected crisis in the Welfare Department budget requiring the BMA to transfer funds from other General Fund departments to make up an anticipated \$1,000,000 shortfall. Early in FY 2003 the BMA again chose to reduce departments spending to avoid a double digit tax rate increase due to an unanticipated dip in assessed valuation attributable to timing of abatements from the previous year’s revaluation. In each circumstance the BMA chose to reduce spending and achieve lower than expected tax rates resulting, in part, to annual property tax collection rates in excess of 98%.

The City’s preparation of the FY 2004 budget will also be challenging due to the sustained 1970’s type economy. Again, conservative revenue assumptions will be prudently applied. The City’s FY 2003 tax rate increase was 7.8%. This trend is expected to continue through FY 2005 when several factors should converge to reduce rates going forward.

1. FY Conversion – In Fiscal Year 2005, the City’s annual debt service commitments attributable to the Fiscal Year Conversion will be completed. This \$6,000,000 annual commitment is therefore available for other uses or tax reduction. It is recommended that this capacity be dedicated by the City to capital reserves for future equipment purchases such as fleets, and computers. The School District’s share of the reduction (approximately one half) will be used in-part to fund an aggressive capital renovation and expansion program. The conclusion of the Fiscal Year Conversion will result in capacity to directly address these long standing problematic budget items.



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2. Revaluation - The City will, in accordance with newly adopted state laws and regulations, be conducting a citywide property revaluation in FY 2004. It is expected that the City will from that point forward, through its Assessor's Office, develop the necessary systems/staff to proceed with annual updates. This will help the City to enter into yearly assessment cycles to recapture value in its tax base.
3. Economic Stimulus – see the following projects;
  - Riverfront Development Project – In November 2002, the Board of Mayor and Aldermen approved a Memorandum of Understanding (MOU) with a development team to undertake a major project along the City's riverfront. The project includes construction of a new baseball stadium (\$27,500,000) to meet Major League Baseball's AA Standards. Also included in the project are major renovations to the City's existing Gill Stadium as an interim home for a minor league baseball team until the new stadium is complete. The site of the new stadium is the current home of Singer Family Park soccer and rugby field, which will be relocated within the City as part of the project. A prerequisite for the City's undertaking the stadium construction is that the development team must complete a combination of other elements of the development plan, including a hotel, "peak" power plant, retail and residential development. City Assessors must certify that an equivalent of \$40,000,000 in new assessed valuation from these elements is assurable to offset against the projected debt service costs associated with stadium construction, thereby ensuring that the City's existing tax base is not used for the project. The total projected development package is in excess of \$100,000,000 and is scheduled for initial action in the Spring/Summer of 2003.

In addition to the elements mentioned, the City has also been informed of the award of approximately \$14 million for the Granite Street Bridge. This widening/reconstruction project immediately adjacent to the Riverfront Project will serve as a gateway to the City's main street and the Verizon Wireless Arena. This project is necessary to coordinate with the State's "10 year plan" to significantly upgrade the turnpike/interstate system around Manchester. This infusion of state and federal highway funds over the next several years will further help solidify the local economy in a generally weakened national/regional economic period.

- School Projects – The City of Manchester school system physically comprises twenty-two (22) school buildings that range in age from five to one hundred plus years old. Fifteen (15) preschool and elementary schools, four (4) junior high schools and three (3) senior high schools. The City also operates the Manchester School of Technology (MST), a vocational skill center offering alternative educational opportunities to high school age students. In addition to the basic curriculum, the Manchester School District provides special education services for learning disabled, mentally retarded and emotionally disturbed children, programs for the deaf, and an English as a Second Language program.

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Enrollment figures for the current school year total 17,435. These include students from the four (4) neighboring towns of Hooksett, Auburn, Candia and Bedford. Enrollments are expected to increase by 1.3 percent annually.

Although the City prides itself in the maintenance and upkeep of the school infrastructure, time places demands on these buildings that only an extensive and costly comprehensive repair, alteration and additions program can properly address. In FY 2001, the City initiated an effort to address an anticipated increased student population and outdated systems.

In Fiscal Year 2001, the City commissioned Parsons Brinkerhoff Construction Services, Inc. ("PB") an engineering firm located in Boston, Massachusetts, to undertake an extensive survey to examine the condition of the City's school facilities. PB was commissioned to identify facility deficiencies, identify necessary facility additions and develop various options of courses of action for the City to consider, and provide an estimate of costs associated with each option. PB issued the report in December 2000.

The PB report has been used as a guide to preparing a comprehensive program of renovating the City's school facilities. In this regard PB was re-engaged to help define a specific design/build/finance procurement program for the City's schools. The intent of the project is to provide renovation to all existing schools. Renovations will include, but not be limited to, HVAC, electrical systems, floors, roofs, fire alarms, sprinklers, and both interior and exterior general maintenance. The project addresses capacity related deficiencies through additions to existing facilities. Additions are being considered for two middle schools and three senior high schools.

In accordance with authority granted by an ordinance enacted on February 12, 2002, the City is in the process of issuing a Request for Proposals ("RFP") for a single contractor team to finance, design and construct additions to three high schools and two middle schools, and other major capital improvements to all twenty-two public schools (the "Program"). The purpose of the ordinance is to authorize the City to conduct a comprehensive procurement to secure a single team to develop the Program on its behalf. Unlike traditional public contracting where design and construction performed by separate entities and selections is based on low bid, design-build allocates all responsibility to a single team and the selection of that team is based on an expanded set of factors that take into account qualitative evaluations of a range of factors, including price, schedule, quality of design and construction, and financing strategies.

In addition, the RFP is being issued in two phases, as follows: Phase 1 seeks proposals for additions and improvements to three high schools; Phase 2 seeks proposals for the balance of the Program. RFP1 was issued on September 23, 2002; RFP2 will be issued on or about December 15, 2002. Responses to RFP1 are to be submitted on December 6, 2002; responses to RFP2 will be submitted approximately 100 days after it is issued. The City's evaluation and selection process will not take place until after the Phase 2 proposals are submitted. At that time, it will conduct a thorough analysis of each proposal

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and intends to award a contract to the proposer whose proposal offers the best combination of price and technical merit.

At the current time, the City is negotiating with two superior construction firms acting as lead developers for their respective teams. Gilbane Construction and Kohl Partners are putting the finishing touches on their proposals in an expedited process that is expected to be completed in April 2003. Furthermore, based on preliminary submissions it is anticipated that related construction will be “fast tracked” and completed within three years.

Based on preliminary estimates, it is anticipated that the cost of the Project will be evenly allocated between new construction and renovation. In this regard neighboring towns will be voting on long term tuition agreements at town meetings in March 2003.

The City’s proposed design/build program, while directly addressing educational needs, will also send a strong economic development message. The City’s multi-year multi-million dollar commitment to its schools is an important economic development investment in the City’s future workforce. While other cities are establishing a moratorium due to the current economic slowdown, the City of Manchester will, as a result of its long term financial planning, be creating jobs and significant economic activity. Given the “fast-track” nature of the project, capital spending should provide significant continued stabilization to the Manchester economy. It is the City’s belief that timely investments in its schools constitutes good economic policy.

During FY 2003/2004 the City will eliminate the FY 2000 School District operating deficit in accordance with its agreed upon plan and schedules. Elimination of the deficit and adherence to approved upon administrative/audit procedures will also provide for a more stable school district operating budget in the future.

- MWW – The Manchester Water Works (“MWW”), the largest water utility in the State of New Hampshire, is responsible for providing drinking water and fire protection to the City of Manchester (the “City”) and portions of Auburn, Bedford, Derry, Goffstown, Hooksett and Londonderry. MWW now maintains more than 472 miles of water mains, which distributes an average of 17.4 million gallons of water every day to 29,523 domestic services and 1,266 fire services to its service areas. MWW is a municipally owned water works system, which supplies water for public and private purposes to an estimated population of 140,000 in the greater Manchester region. As an enterprise fund of the City, all revenues derived from the sale of water remains within the department. A seven-member Board of Water Commissioners governs the operations of the Utility pursuant to the authority granted to the City by an Act of the New Hampshire Legislature in 1871 and is responsible for establishing in-town water rates. At present, MWW provides residential, commercial, industrial and wholesale water services and fire protection services to portions of six surrounding communities. Currently, water services provided to the outlying communities, representing approximately 18% of total water services revenue, is subject to Public Utilities Regulation. Under a recently amended NH State Statute, RSA:362-4, Manchester Water Works has petitioned the NH Public Utilities Commission for an exemption from regulation. A decision from the NHPUC is

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anticipated by March 2003. MWW is preparing for a \$43,500,000 General Water Works Revenue Bond issuance of which the proceeds of the bonds will be used to finance MWW's rehabilitation of its Lake Massebesic Water Treatment facility. This will be the first Revenue Bond offering of the Manchester Water Works.

The combination of these new economic projects along with the City's successful investment in the Manchester Airport, the Verizon Wireless Arena and various Millyard initiatives should help sustain the City's economy for the next decade.

It has been reported that state governments today are in the worst fiscal condition since World War II. According to the Federal Reserve Bank of Boston, the New England States are no exception to this situation. All are experiencing deficits in FY 2002. However, while the nation and New England are experiencing deficits and significant actual year-over-year revenue declines, revenues in New Hampshire are increasing. Although not increasing to projections, they are increasing none the less. Manchester's economy enjoys the benefits of the state's low tax and spending philosophy.

While the City has taken actions to stimulate the local economy, it should be recognized that the overall New Hampshire economy is still faring better in this period of economic uncertainty than any of its neighboring New England states. New Hampshire's current growth outpaces both national and New England averages. The New England Economic Project is forecasting that New England's gross productivity will jump 17.9% compared to 11.3% regionally and 16.5% nationally by 2006.

While the City's current economy appears resilient with property tax collections remaining strong (98.84%), the Board of Mayor and Aldermen have adopted the above mentioned policies and capital initiatives to further strengthen the City's financial condition and the local economy during this anticipated sustained period of economic slowdown. These projects are aimed not only at providing jobs, but also more importantly, at enhancing local education and quality of life.

<b>BOND ISSUES AND CREDIT RATING DURING PERIOD</b>
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During November 2001 the City took advantage of an improved interest rate environment to issue \$23,415,000 public improvement bonds; \$16,565,000 refunding bond and \$20,810,000 pension obligation bonds.

The general debt limit of the City is 9.75% of base valuation, a total capacity of \$580,322,643; not more than 7% of which may be incurred for School purposes. Water and Sewer projects ordered by the State Water Supply and Pollution control commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by special legislative acts rather than the general municipal finance statutes are also sometimes excluded from a city or town's statutory debt limit.

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As of June 30, 2002 the City has a total outstanding General Obligation debt of \$135,787,560 and authorized and unissued debt of \$59,082,099 for compliance with various improvements, infrastructure improvements, and economic development projects.

<b>INDEPENDENT AUDIT</b>
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State statutes and the City Charter require an annual audit by an independent certified public accountant. The City has engaged McGladrey & Pullen, LLP, Certified Public Accountants, to conduct the City's audit. In addition to meeting the requirements set forth in State statutes and the Charter, the audit was also designed to meet the requirements of the federal Single Audit Act and related OMB Circular A-133. The financial records, books of accounts, and transactions of the City for the fiscal year ended June 30, 2002 have been audited by McGladrey & Pullen, LLP. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports on internal controls and compliance with applicable laws and regulations can be found in a separately issued single audit report.

<b>ACKNOWLEDGEMENTS</b>
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I would like to thank all of the City's department heads, payroll and account clerks for completion of another successful year. I would especially like to thank the staff of the Finance Department for their dedication and attention to detail.

Respectfully submitted,  
**Kevin A. Clougherty**  
Kevin A. Clougherty  
Finance Officer

The organizational chart for the City of Aldermen is structured as follows:

- Mayor** (Elected by Citizens)
  - Board of School Committee** (Elected by Citizens)
    - School District
  - Welfare Commissioner** (Elected by Citizens)
    - Welfare Department
  - Board of Aldermen** (Elected by Citizens)
    - City Officers** (Nominated and Appointed by Board of Aldermen)
      - City Clerk
        - Office of the City Clerk
      - Finance Officer
        - Finance Department
        - Aggregation Division
      - City Assessors
        - Office of Assessors
    - Library Trustees** (Nominated and Appointed by Board of Aldermen)
      - Libraries
      - Library Trust Funds
- Special Service Boards and Commissions** (Nominated by the Mayor and Confirmed by the Board of Aldermen)
  - Board of Recount
  - Art Commission
  - Heritage Commission
  - Planning Board
    - Planning Director
      - Planning Department
      - Community Improvement Program
  - Water Commission
    - Water Director
      - Department of Water
  - Conservation Commission
  - Zoning Board of Adjustment
  - Manchester Development Corporation
    - MDC Inc.
  - Board of Registrars
  - Trustees of Trust Funds
- Departments** (Nominated by the Mayor and Confirmed by the Board of Aldermen)
  - City Solicitor
    - Office of the City Solicitor
      - Risk Management
        - Safety Review Board
      - Chief Negotiator/Contract Administration
        - Personnel Appeals Board
  - Director of Human Resources
    - Department of Human Resources
      - Systems Advisory Committee
  - Director of Information Systems
    - Information Systems Department
  - Tax Collector
    - Department of Tax Collection
  - Fire Chief
    - Department of Fire Prevention
      - Fire Commission
  - Police Chief
    - Department of Police Protection
      - Police Commission
  - Director of Youth Services
    - Office of Youth Services
      - Elderly Services Commission
  - Director of Elderly Services
    - Department of Elderly Services
      - Elderly Services Commission
  - Health Officer
    - Department of Health
      - Board of Health
  - Director of Traffic
    - Department of Traffic
      - Building Board of Appeals
      - Airport Authority
  - Superintendent of Parks, Recreation & Cemeteries
    - Department of Parks, Recreation & Cemeteries
      - Parks & Recreation Commission
  - Building Commissioner
    - Department of Building
  - Airport Director
    - Department of Aviation
  - Economic Development Director
    - Economic Development Office
  - Director of Public Works
    - Building Maintenance Division
      - Highway Commission
    - Department of Highway
      - Highway Commission
    - Environmental Protection Division

**List of Principal Officials  
in office at the close of fiscal year ended June 30, 2002**

**Mayor**

Robert A. Baines

**Aldermen**

Ward 1	David M. Wihby	Ward 7	William P. Shea
Ward 2	Theodore L. Gatsas	Ward 8	Betsi L. DeVries
Ward 3	Frank C. Guinta	Ward 9	Michael D. Garrity
Ward 4	Mary A. Sysyn	Ward 10	George W. Smith
Ward 5	Ed Osborne	Ward 11	Henry R. Thibault
Ward 6	Real R. Pinard	Ward 12	Armand D. Forest
At-large	Michael J. Lopez	At-large	Daniel P. O'Neil *

\* Chairman of the Board

**City Departments**

Finance Officer	Kevin A. Clougherty
Deputy Finance Officer	Randy M. Sherman, CPA
Second Deputy Finance Officer, Treasury Manager	Joanne L. Shaffer, CCM
City Clerk	Leo R. Bernier
City Solicitor	Thomas R. Clark
Commissioner of Welfare	Paul R. R. Martineau
Chief of Police	Mark L. Driscoll
Fire Chief	Joseph P. Kane
Public Health Director	Frederick Rusczyk, M.P.H.
Director of Public Works	Frank C. Thomas, P.E.
Director of Parks, Recreation & Cemetery	Ronald E. Ludwig
Director of Economic Development	Jay E. Taylor
Building Commissioner	Leon LaFreniere
Director of Traffic	Thomas P. Lolicata
Airport Director	Kevin A. Dillon
Director of Water	Thomas M. Bowen, P.E.
Director of Information Systems	Diane Prew
Director of City Library	John Anthony Brisbin
Director of Planning Board	Robert S. Mackenzie
Superintendent of Schools	Normand Tanguay
Director of Human Resources	Virginia A. Lamberton
Director of Elderly Services	Barbara A. Vigneault
Acting Director of Youth Services	Laurel Buccino
Chairman Board of Assessors	Steven G. Tellier
Collector of Taxes	Joan A. Porter